

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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May 12, 2010

Mr. Andrew Green  
Director of Finance  
City of Pasadena  
100 North Garfield Ave.  
Pasadena, CA 91109

Re: City of Pasadena  
Department of Public Works, Capital Projects Division  
Audit of Indirect Cost Rate Proposal for Fiscal Year 2008/2009  
File Number: P1590-0039 (P1190-0697)

Dear Mr. Green:

At the request of the California Department of Transportation (Department), the State Controller's Office (SCO) conducted an audit of the Indirect Cost Rate Proposal (ICRP) for the City of Pasadena, Department of Public Works, Capital Projects Division (City) for the fiscal year (FY) ended June 30, 2009, to determine whether the ICRP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the Department's Local Programs Procedures (LPP) 04-10. The City's management is responsible for the fair presentation of the ICRP.

Based on audit work performed by the SCO, the City's ICRP for the FY ended June 30, 2009, is presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 44.13 percent of total direct salaries and wages, plus fringe benefits for the FY ended June 30, 2009. The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

This report is intended solely for the information of the City, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Mr. Andrew Green  
May 12, 2010  
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Please retain the approved ICRP for your files. Copies were sent to the Department's District 7, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Nancy Shaul, Audit Manager, at (916) 323-7940 or Amada Maenpaa, Audit Manager, at (916) 323-7868.

*Original signed by*

MARYANN CAMPBELL-SMITH  
Chief, External Audits – Local Governments

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation
- David Saia, Senior LAPM/LAPG Coordinator, Caltrans Division of Local Assistance
- Jenny N. Tran, Associate Account Analyst, Local Program Accounting Branch, Local Assistance
- Kirk Cessna, Local Assistance Engineer, District 7
- P1590-0039 (P1190-0697)

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**City of Pasadena  
Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the City of Pasadena and approved by Caltrans.

**SECTION I: Rates**

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/08 to 6/30/09	44.13%	DPW – Capital Projects

\* Base: Total Direct Salaries and Wages plus fringe benefits

**SECTION II: General Provisions**

**A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

**B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

**C. Fixed Rate with Carry Forward:**

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

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**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

**F. Other:**

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

**G. Rate of Calculation:**

FY 2009 Estimated Indirect Costs	\$ 1,353,155
Carry Forward	<u>165,576</u>
Estimated FY 2009 Indirect Costs	\$ 1,518,731
FY 2009 Estimated Direct Salaries and Wages plus Fringe Benefits	\$3,441,260
FY 2009 Indirect Cost Rate	44.13%

**CERTIFICATION OF INDIRECT COSTS**

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: City of Pasadena

Signature: Original signed by

Signature: Original signed by

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Steve Mermell

Name of Official: Nuntaya Chau

Title: Director of Finance (Acting)

Title: Senior Accountant

Date of Execution: May 5, 2008

Telephone No.: (626) 744-4071

## INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Original signed by \_\_\_\_\_  
Signature

Signature \_\_\_\_\_

Reviewed and Approved by:

Reviewed and Approved by:

Mary Ann Campbell-Smith  
Name of Audit Manager

(See State Controllers Office Report  
Name of Auditor dated 5/12/10)

Title: Chief External Affairs - Local Govts

**Title:** \_\_\_\_\_

Date: 5/12/10

Date: \_\_\_\_\_

Phone Number: (916) 323-7105

Phone Number:

**CITY OF PASADENA  
DEPARTMENT OF PUBLIC WORKS  
CAPITAL PROJECTS DIVISION**

**Audit Report**

**INDIRECT COST RATE PROPOSAL (ICRP)**

*July 1, 2008, through June 30, 2009*



**JOHN CHIANG**  
California State Controller

May 2010



**JOHN CHIANG**  
**California State Controller**

May 7, 2010

MaryAnn Campbell-Smith  
Audits and Investigations, MS 2  
California Department of Transportation  
P.O. Box 942874  
Sacramento, CA 94274-001

Dear Ms. Campbell-Smith:

The State Controller's Office audited the City of Pasadena, Department of Public Works, Capital Projects Division's indirect cost rate proposal (ICRP). The audit period was July 1, 2008, through June 30, 2009.

The purpose of the audit was to determine whether the ICRP was presented in accordance with Title 2, *Code of Federal Regulations*, Part 225, and the California Department of Transportation's Local Programs Procedures (LPP) 04-10. The city's management is responsible for the fair presentation of the ICRP.

The city proposed an indirect cost rate of 44.13% (total estimated indirect costs of \$1,518,731 divided by total estimated direct salaries and wages plus fringe benefits of \$3,441,260). We determined that the allowable indirect cost rate, based on the city's ICRP, is 44.13%.

If you have any questions, please call Andrew M. Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

*original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/vb

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# Audit Report

## Summary

We audited the indirect cost rate proposal (ICRP) submitted by the City of Pasadena for the Department of Public Works, Capital Projects Division, to determine whether the ICRP was presented in accordance with the applicable requirements. The city is responsible for the fair presentation of the ICRP. The audit was for the period of July 1, 2008, through June 30, 2009.

Our audit determined that the allowable indirect cost rate is 44.13%. The unallowable audit adjustments (Schedule 1) and the related audit findings (Findings and Recommendations) are immaterial; however, they are presented in this audit report as required by the California Department of Transportation for administrative purposes.

## Background

The City of Pasadena's Department of Public Works handles vital services to city residents and businesses. The department is the caretaker of the community's infrastructure. Its goal is to preserve and enhance the city's resources for future generations. The five major divisions of the Department of Public Works are:

- Building Systems and Fleet Management Division
- Capital Projects Division
- Engineering Division
- Parks and Natural Resources Division
- Street Maintenance and Integrated Waste Management

The City of Pasadena submitted the Indirect Costs Rate Proposal (ICRP) for the Department of Public Works, Capital Projects Division, to the California Department of Transportation (Caltrans) on May 5, 2008. The Capital Projects Division is responsible for managing the construction/renovation work for all city-owned facilities. This includes the seismic retrofitting of City Hall; the design and initiation of construction of the Pasadena Ice Rink; and working in conjunction with the City of Pasadena, the Huntington Medical Foundation, the Huntington Hospital, and the Community Health Alliance of Pasadena to develop a proposed model for an urgent care center.

## Objectives, Scope, and Methodology

Our audit was conducted to determine whether the ICRP is presented in accordance with Title 2, *Code of Federal Regulations* (CFR), Part 225, and Caltrans' Local Programs Procedures (LPP) 04-10.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP and inquiries with the city's personnel. The audit also included tests of individual accounts in the general ledger and supporting documentation to assess the allowability, allocability, and reasonableness of costs, and an assessment of the internal control system related to the ICRP as of June 30, 2009. Changes to the financial management system subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Conclusion**

We determined that the City of Pasadena, Department of Public Works, Capital Projects Division's ICRP for the fiscal year (FY) 2008-09, was presented in accordance with 2 CFR 225 and LPP 04-10. Our audit determined that the allowable indirect cost rate is 44.13% of total direct salaries and wages, plus fringe benefits for FY 2008-09. The allowable rate is based on the understanding that the carry-forward provision applies and no adjustment will be made to the allowed rate.

## **Views of Responsible Officials**

We conducted an exit conference on March 23, 2010, and discussed the audit result with Robert Ridley, Controller; Nuntaya Chau, Senior Accountant; and other city management personnel, agreeing with the audit results. The city representatives declined a draft report and agreed that we could issue the report as final.

## **Restricted Use**

This report is solely for the information and use of City of Pasadena; the California Department of Transportation; and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

May 12, 2010

# Schedule 1— Summary of ICRP Costs July 1, 2008, through June 30, 2009

	Proposed Amounts	Unallowable	Audited Amounts	Reference <sup>1</sup>
Direct costs:				
Salaries	\$ 2,064,608	\$ —	\$ 2,064,608	
Benefits	1,376,652	—	1,376,652	
Total direct costs	\$ 3,441,260	—	\$ 3,441,260	
Indirect costs:				
Salaries	\$ 607,187	\$ —	\$ 607,187	
Benefits	455,899	—	455,899	
Total salaries and benefits	1,063,086	—	1,063,086	
Expenses:				
8101 Materials and supplies	22,906	(1,939)	20,967	Finding 1
8107 Equipment lease payments	9,663	—	9,663	
8108 Computer related supplies	10,644	(220)	10,644	Finding 1
8109 Equipment purchases under \$10,000	176	—	176	
8112 Legal and other advertising	143	—	143	
8113 Photocopy machine maintenance	1,381	—	1,381	
8114 Other contract services	4,082	(267)	3,815	Finding 2
8115 Consultant services	818	(800)	18	Finding 2
8117 Data processing operations	1,224	—	1,224	
8124 Dues and memberships	257	—	257	
8127 Conferences and meetings—city departments	1,085	—	1,085	
8129 Education	180	—	180	
8135 Reference materials subscriptions	759	—	759	
8139 Water	709	—	709	
8140 Telephone	3,162	—	3,162	
8144 Postage	20	—	20	
8290 Cell phone reimbursement	(325)	—	(325)	
8601 IS—structural maintenance	16,603	—	16,603	
8604 IS—utilities and insurance housekeeping	8,772	—	8,772	
8605 IS—housekeeping services	12,384	—	12,384	
8607 IS—printing	11,938	(1,116)	10,822	Finding 2
8608 IS—mail — basic services	9,224	—	9,224	
8609 IS—telephone — basic	17,776	—	17,776	
8613 IS—radio — basic service	4,623	—	4,623	
8616 IS—fleet maintenance—equipment maintenance	22,908	—	22,908	
8617 IS—fleet maintenance—equipment replacement	26,069	—	26,069	
8618 IS—fleet maintenance—fuel	15,620	—	15,620	

**Schedule 1 (continued)**

	Proposed Amounts	Unallowable	Audited Amounts	Reference <sup>1</sup>
Expenses: (continued)	5,288	—	5,288	
8620 IS—building preventive maintenance	5,288	—	5,288	
8622 IS—telephone—usage	3,130	—	3,130	
8624 IS—enterprise network	66,630	—	66,630	
8634 IS—security services at city hall	5,925	—	5,925	
8641 IS—Microsoft licensing	6,296	—	6,296	
Total expenses	290,069	\$ (4,342)	285,069	
Indirect carry-forward	165,576	—	165,576	
Total indirect costs	\$ 1,518,731	—	\$ 1,518,731	
Indirect costs calculation base	÷ 3,441,260	—	÷ 3,441,260	
Indirect cost rate <sup>2</sup>	44.13%		44.01%	

<sup>1</sup> See Findings and Recommendations section.

<sup>2</sup> The indirect cost rate is calculated by dividing the total indirect costs by the indirect cost calculation base (total estimated direct salaries and wages plus fringe benefits). The difference between the proposed rate and the audited rate is less than 1% (0.12%); accordingly, the acceptable indirect cost rate is 44.13% as proposed.

## Findings and Recommendations

### FINDING 1— Unallowable expenses of indirect costs

The city's Indirect cost Rate Proposal (ICRP) included costs for services and supplies in the amount of \$2,159 that are not allowable as indirect cost components of the ICRP. These unallowable costs were included as follows:

Account No. 8108, Reallocated to another organization	\$ 146
Account No. 8108, Credit not properly applied	74
Account No. 8101, Costs improperly allocated	1,760
Account No. 8101, Ineligible costs	179
Total	<u>\$ 2,159</u>

Title 2, *Code of Federal Regulations* (CFR), Part 225, Appendix A, F. Indirect Costs, states "Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved."

#### Recommendation

The city's expenses that are not incurred for a common joint purpose benefiting more than one cost objective and are not readily assignable to the cost objective specifically benefited should not be included as indirect cost components of the ICRP.

### FINDING 2— Indirect cost identified with particular final cost objective

The city's ICRP included costs in the amount of \$2,183 that can be identified specifically with particular final cost objectives. These costs were incurred for the Earth System Project, the Easement, and the Environmental Impact Report. Accordingly, we have reclassified these costs into the direct cost component of the city's ICRP.

Account No. 8114, Other contract services—Earth System Project	\$ 267
Account No. 8115, Report fee/plotted easement	800
Account No. 8607, Environmental Impact statement	1,116
Total	<u>\$ 2,183</u>

Title 2 CFR 225, Appendix A, E. Direct Costs, states, "Direct costs are those that can be identified specifically with a particular final cost objective."

#### Recommendation

Costs associated with a particular final cost objective should be included as a component of direct costs in the city's indirect cost allocation plan.

**State Controller's Office  
Division of Audits  
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**<http://www.sco.ca.gov>**